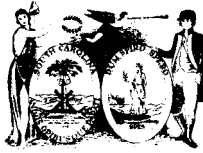


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
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October 29, 2001

Ms. Linda A. Holtzscheiter, Reimbursement Manager
Mariner Post-Acute Network
15415 Katy Freeway, Suite 800
Houston, Texas 77094

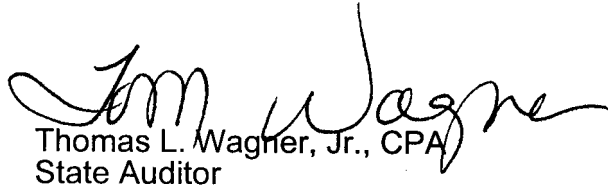
Re: AC# 3-HAL-J8 – GranCare South Carolina, Inc. d/b/a Hallmark Health Care Center

Dear Ms. Holtzscheiter:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1997 through September 30, 1998. That report was used to set the rate covering the contract period beginning October 1, 1999.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sag

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph P. Hayes

**GRANCARE SOUTH CAROLINA, INC.
D/B/A HALLMARK HEALTH CARE CENTER**

SUMMERVILLE, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 1999
AC# 3-HAL-J8**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 24, 2001

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with GranCare South Carolina, Inc., d/b/a Hallmark Health Care Center, for the contract period beginning October 1, 1999, and for the twelve month cost report period ended September 30, 1998, as set forth in the accompanying schedules. The management of GranCare South Carolina, Inc., d/b/a Hallmark Health Care Center is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

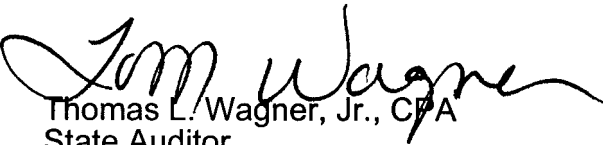
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by GranCare South Carolina, Inc., d/b/a Hallmark Health Care Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and GranCare South Carolina, Inc., d/b/a Hallmark Health Care Center dated as of June 3, 1996 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
May 24, 2001

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.



Thomas L. Wagner, Jr., CPA
State Auditor

HALLMARK HEALTH CARE CENTER

Computation of Rate Change
For the Contract Period
Beginning October 1, 1999
AC# 3-HAL-J8

	10/01/99- <u>09/30/00</u>
Interim reimbursement rate (1)	\$108.30
Adjusted reimbursement rate	<u>100.94</u>
Decrease in reimbursement rate	\$ <u><u>7.36</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 19, 2000

HALLMARK HEALTH CARE CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1999 Through September 30, 2000
AC# 3-HAL-J8

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$42.82	\$47.61	
Dietary		9.46	10.24	
Laundry/Housekeeping/Maint.		<u>8.02</u>	<u>8.89</u>	
Subtotal	\$ <u>4.67</u>	60.30	66.74	\$ 60.30
Administration & Med. Records	\$ <u>-</u>	<u>16.29</u>	<u>11.39</u>	<u>11.39</u>
Subtotal		76.59	<u>\$78.13</u>	71.69
<u>Costs Not Subject to Standards:</u>				
Utilities		2.48		2.48
Special Services		3.66		3.66
Medical Supplies & Oxygen		5.51		5.51
Taxes and Insurance		2.40		2.40
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$90.64</u>		85.74
Inflation Factor (3.00%)				2.57
Cost of Capital				8.54
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				4.67
Effect of \$1.75 Cap on Cost/Profit Incentives				(2.92)
CNA Add-On				.75
Nurse Aide Staffing Add-On				<u>1.59</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$100.94</u>

HALLMARK HEALTH CARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1998
AC# 3-HAL-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$1,354,603	\$ 7,636 (14) 44 (14)	\$ 19,847 (4) 519 (4) 4,346 (12) 3,223 (13) 120 (13)	\$1,334,228
Dietary	313,241	2,207 (14)	840 (4) 10,718 (5) 8,762 (11) 318 (13)	294,810
Laundry	43,170	-	-	43,170
Housekeeping	105,170	613 (15)	608 (16)	105,175
Maintenance	118,869	674 (15)	246 (4) 3,340 (11) 68 (13) 13,787 (14) 576 (16)	101,526
Administration & Medical Records	588,700	12,478 (4) 4,652 (4) 739 (10) 4,346 (12) 155 (13) 611 (14) 761 (15)	247 (11) 42 (13) 104,098 (14) 630 (16)	507,425
Utilities	81,986	55 (14) 465 (15)	4,920 (6) 436 (16)	77,150
Special Services	133,897	1,226 (10)	51 (13) 1,421 (17) 19,564 (18)	114,087
Medical Supplies & Oxygen	268,681	1,911 (4) 500 (10)	17,557 (7) 11,024 (8) 13,529 (9) 4,688 (11) 52,630 (17)	171,664

HALLMARK HEALTH CARE CENTER
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 1998
 AC# 3-HAL-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	<u>Adjusted Totals</u>
Taxes and Insurance	79,902	425 (15)	5,067 (14) 396 (16)	74,864
Legal Fees	10,795	16 (15)	10,811 (14)	-
Cost of Capital	295,536	766 (15)	6,213 (1) 3,233 (2) 7,570 (3) 12,381 (14) 708 (16) 242 (19)	265,955
Subtotal	3,394,550	40,280	344,776	3,090,054
Ancillary	254,982	13,529 (9)	2,465 (10)	266,046
Non-Allowable	1,604,178	6,213 (1) 3,233 (2) 7,570 (3) 2,411 (4) 10,718 (5) 4,920 (6) 17,557 (7) 11,024 (8) 3,667 (13) 135,591 (14) 3,354 (16) 54,051 (17) 19,564 (18) 242 (19)	3,720 (15)	1,880,573
Total Operating Expenses	<u>\$5,253,710</u>	<u>\$333,924</u>	<u>\$350,961</u>	<u>\$5,236,673</u>
Total Patient Days	<u>31,156</u>	<u>-</u>	<u>-</u>	<u>31,156</u>

Total Beds 88

HALLMARK HEALTH CARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-HAL-J8

ADJUSTMENT NUMBER	ACCOUNT TITLE	DEBIT	CREDIT
1	Accumulated Depreciation	\$ 13,275	
	Other Equity	25,813	
	Nonallowable	6,213	
	Fixed Assets		\$ 39,088
	Cost of Capital		6,213
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	3,233	
	Cost of Capital		3,233
	To remove amortization expense related to organization and loan cost State Plan, Attachment 4.19D		
3	Nonallowable	7,570	
	Cost of Capital		7,570
	To adjust depreciation and amortization expense to comply with capital cost policy State Plan Attachment 4.19D		
4	Administration	12,478	
	Medical Records	4,652	
	Medical Supplies	1,911	
	Nonallowable	2,411	
	Nursing		19,847
	Restorative		519
	Dietary		840
	Maintenance		246
	To reclassify expense to the proper cost center and disallow expense due to lack of documentation HIM-15-1, Section 2304 DH&HS Expense Crosswalk		
5	Nonallowable	10,718	
	Dietary		10,718
	To disallow expense due to lack of documentation HIM-15-1, Section 2304		

HALLMARK HEALTH CARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-HAL-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable Utilities	4,920	4,920
	To disallow cable TV expense HIM-15-1, Section 2106.1		
7	Nonallowable Medical Supplies	17,557	17,557
	To disallow expense due to lack of documentation HIM-15-1, Section 2304		
8	Nonallowable Medical Supplies	11,024	11,024
	To disallow expense due to lack of documentation HIM-15-1, Section 2304		
9	Ancillary Medical Supplies	13,529	13,529
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
10	Administration	739	
	Medical Supplies	500	
	Special Services	1,226	
	Ancillary		2,465
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
11	Retained Earnings	17,037	
	Dietary		8,762
	Maintenance		3,340
	Medical Records		247
	Medical Supplies		4,688
	To properly charge expense applicable to the prior period HIM-15-1, Section 2302.1		

HALLMARK HEALTH CARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-HAL-J8

ADJUSTMENT <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
12	Administration	4,346	
	Nursing		4,346
	To reclassify expense to the proper cost center		
	DH&HS Expense Crosswalk		
13	Administration	155	
	Nonallowable	3,667	
	Nursing		3,223
	Restorative		120
	Dietary		318
	Maintenance		68
	Medical Records		42
	Special Services		51
	To adjust fringe benefits and related allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
14	Nursing	7,636	
	Restorative	44	
	Dietary	2,207	
	Medical Records	611	
	Utilities	55	
	Nonallowable	135,591	
	Maintenance		13,787
	Administration		104,098
	Legal		10,811
	Taxes and Insurance		5,067
	Cost of Capital		12,381
	To adjust home office cost allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		

HALLMARK HEALTH CARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-HAL-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
15	Housekeeping	613	
	Maintenance	674	
	Administration	761	
	Legal	16	
	Utilities	465	
	Taxes and Insurance	425	
	Cost of Capital	766	
	Nonallowable		3,720
	To reverse DH&HS adjustment to remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
16	Nonallowable	3,354	
	Housekeeping		608
	Maintenance		576
	Administration		630
	Utilities		436
	Taxes and Insurance		396
	Cost of Capital		708
	To remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment, 4.19D		
17	Nonallowable	54,051	
	Medical Supplies		52,630
	Special Services		1,421
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment, 4.19D		
18	Nonallowable	19,564	
	Special Services		19,564
	To adjust co-insurance for Medicare Part B services State Plan, Attachment 4.19D		

HALLMARK HEALTH CARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-HAL-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
19	Nonallowable Cost of Capital	242	242
	To adjust capital return State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$390,049</u>	<u>\$390,049</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

HALLMARK HEALTH CARE CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1998
AC# 3-HAL-J8

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.2493</u>
Deemed Asset Value (Per Bed)	35,130
Number of Beds	<u>88</u>
Deemed Asset Value	3,091,440
Improvements Since 1981	103,883
Accumulated Depreciation at 9/30/98	<u>(452,256)</u>
Deemed Depreciated Value	2,743,067
Market Rate of Return	<u>.063</u>
Total Annual Return	172,813
Return Applicable to Non-Reimbursable Cost Centers	(908)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>211</u>
Allowable Annual Return	172,116
Depreciation Expense	94,217
Amortization Expense	363
Capital Related Income Offsets	(33)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(708)</u>
Allowable Cost of Capital Expense	265,955
Total Patient Days (Minimum 97% Occupancy)	<u>31,156</u>
Cost of Capital Per Diem	\$ <u><u>8.54</u></u>

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